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MODERN FARMING
现代牧业

China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

CONTINUING CONNECTED TRANSACTION RENEWAL OF SUPPLY AGREEMENT WITH KENIULE

Reference is made to the announcement of the Company dated April 1, 2022 in relation to the Previous Supply Agreement. As the term of the Previous Supply Agreement will expire on December 31, 2022, Modern Farming Wuhe, an indirect non-wholly owned subsidiary of the Company, and Keniule entered into the Supply Agreement on December 28, 2022 (after trading hours), pursuant to which Modern Farming Wuhe agreed to supply, and Keniule agreed to purchase, fresh raw milk produced by Modern Farming Wuhe from time to time during the Term.

As at the date of this announcement, 49% of the equity interests in Keniule is held by Inner Mongolia Mengniu, which in turn is a 99.99% owned subsidiary of Mengniu, a substantial shareholder and connected person of the Company. Therefore, Keniule is an associate of Mengniu and a connected person of the Company. Modern Farming Wuhe is an indirect non-wholly owned subsidiary of the Company. Accordingly, the transactions contemplated under the Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest percentage ratio calculated in accordance with the Listing Rules in respect of the transactions contemplated under the Supply Agreement exceeds 0.1% but is less than 5%, the entering into of the Supply Agreement and the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A. INTRODUCTION

Reference is made to the announcement of the Company dated April 1, 2022 in relation to the Previous Supply Agreement. As the term of the Previous Supply Agreement will expire on December 31, 2022, Modern Farming Wuhe, an indirect non-wholly owned subsidiary of the Company, and Keniule entered into the Supply Agreement on December 28, 2022 (after trading hours), pursuant to which Modern Farming Wuhe agreed to supply, and Keniule agreed to purchase, fresh raw milk produced by Modern Farming Wuhe from time to time during the Term.

B. THE SUPPLY AGREEMENT

The principal terms of the Supply Agreement are as follows:

Date: December 28, 2022

Parties: (1) Modern Farming Wuhe (as the supplier); and
(2) Keniule (as the purchaser).

Term: From January 1, 2023 to December 31, 2023.

Subject matter: Modern Farming Wuhe agreed to supply, and Keniule agreed to purchase, fresh raw milk produced by Modern Farming Wuhe which meets Keniule's purchasing standard and quality requirements during the Term in accordance with the monthly milk supply plan to be agreed between Modern Farming Wuhe and Keniule.

Settlement terms: (1) Keniule shall provide details of the settlement amount for the previous month to Modern Farming Wuhe for confirmation before the 5th day of each month;
(2) Modern Farming Wuhe shall issue an invoice for the confirmed settlement amount for the previous month to Keniule before the 10th day of each month; and
(3) Keniule shall pay the invoiced amount to the designated account of Modern Farming Wuhe before the 15th day (or the next business day if such date is a public holiday) of each month.

Pricing policy:

The price of the fresh raw milk supplied under the Supply Agreement shall be negotiated and determined between the parties on the grounds of fairness and by reference to (i) the price of fresh raw milk of the same or substantially similar quality standards at which Modern Farming Wuhe supplies to its other customers in the same region; and (ii) the market guidance prices published by dairy associations in the East China region in 2023.

Internal control measures

The Group has implemented internal control procedures and policies through its internal compliance department to monitor connected transactions, including continuing connected transactions, with focus on (1) updating the list of connected persons and transaction ledgers; (2) identifying potential connected transactions; (3) (where appropriate) considering aggregation of connected transactions and managing aggregated transaction amounts; and (4) monitoring transaction amounts against annual caps or maximum limit on a monthly basis.

The Group's internal compliance department will continuously monitor the transactions contemplated under the Supply Agreement to ensure that they will be conducted in accordance with the terms of the Supply Agreement and in compliance with Chapter 14A of the Listing Rules; and in particular, the internal compliance department will continuously review and monitor relevant quotations, published guidance and reports to ensure that the price of the fresh raw milk supplied under the Supply Agreement will be determined in accordance with the agreed pricing policy, and will submit a report of its findings to the management and the Audit Committee of the Company semi-annually.

The Group's external auditors and independent non-executive Directors will also conduct an annual review and confirmation of the transactions under the Supply Agreement in accordance with the requirements under Chapter 14A of the Listing Rules.

C. HISTORICAL TRANSACTION AMOUNTS, ANNUAL CAP AND BASIS OF DETERMINATION

The historical transaction amounts between Modern Farming Wuhe and Keniule in respect of the supply and purchase of fresh raw milk are (i) approximately RMB13,735,000 for the period from September 25, 2021 to December 31, 2021; (ii) approximately RMB9,648,000 for the three months from January 1, 2022 to March 31, 2022 and (iii) approximately RMB20,954,000 for the eight months from April 1, 2022 to November 30, 2022.

The annual cap in respect of the supply and purchase of fresh raw milk during the Term under the Supply Agreement will be RMB80,000,000, which is determined based on (i) the expected increase in supply of fresh raw milk to Keniule due to the expected strong growth in downstream product sales; (ii) the estimated unit price of fresh raw milk and the expected volume to be purchased by Keniule during the Term; and (iii) the historical transaction amounts as set out above.

D. INFORMATION ON MODERN FARMING WUHE AND KENIULE

(a) Modern Farming Wuhe

Modern Farming Wuhe is a wholly owned subsidiary of Modern Farming, which is in turn an indirect non-wholly owned subsidiary of the Company. Modern Farming Wuhe is principally engaged in, among others, breeding dairy cows and production and sale of fresh raw milk.

The Company is incorporated in the Cayman Islands with limited liability and is listed on the Main Board of the Stock Exchange. The Company is an investment holding company, which, along with its subsidiaries, is principally engaged in dairy farming operations, production and sale of raw milk. As of June 30, 2022, the Group operated 38 dairy farming companies in the PRC with over 380,000 dairy cows and annual milk yield of approximately 2.30 million tons.

(b) Keniule

Keniule is a company incorporated in the PRC and is principally engaged in the production and sale of high-end low-temperature milk. As at the date of this announcement, Coca-Cola China and Inner Mongolia Mengniu hold 51% and 49% of equity interests in Keniule, respectively. Coca-Cola China is a wholly owned subsidiary of Coca-Cola South Asia Holdings, Inc.. Inner Mongolia Mengniu is a 99.99% owned subsidiary of Mengniu.

Save as disclosed above and to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Coca-Cola China and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

E. REASONS FOR AND BENEFITS OF THE SUPPLY AGREEMENT

The entering into of the transactions contemplated under the Supply Agreement would enable Modern Farming Wuhe to secure a stable and recurring source of income and expand its customer base. As Keniule is located in the southeast region of mainland China where the fresh raw milk price is relatively higher and the demand is stronger as compared to the other regions, the supply of fresh raw milk by Modern Farming Wuhe to Keniule is expected to enhance the overall profitability of the Group.

Coca-Cola China is a total beverage company, offering several beverage categories choices to consumers, among which Coca-Cola is one of the most well-known international brands in China. Partnering with Keniule is a key strategic initiative to expand our customer base which is backed by Mengniu and Coca-Cola China. Further, the entering into of the Supply Agreement with Keniule, an associate of Mengniu, would further strengthen the strategic partnership between the Company and Mengniu.

The Directors (including the independent non-executive Directors) are of the view that the Supply Agreement and the transactions contemplated thereunder had been entered into in the ordinary and usual course of business of the Group, and the terms of which (including the proposed annual cap) are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As at the date of this announcement, (i) Mr. LU Minfang, a non-executive Director and the chairman of the Board, is also an executive director and the chief executive officer of Mengniu; (ii) Mr. ZHANG Ping, a non-executive Director, is also an executive director and the chief financial officer of Mengniu; (iii) Mr. ZHAO Jiejun, a non-executive Director, is also a vice president and the head of milk sourcing and supply chain business unit of Mengniu. Accordingly, each of Mr. LU Minfang, Mr. ZHANG Ping and Mr. ZHAO Jiejun is considered to have a material interest in the Supply Agreement and has abstained from voting on the relevant resolutions of the Board approving the Supply Agreement.

F. IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, 49% of the equity interests in Keniule is held by Inner Mongolia Mengniu, which in turn is a 99.99% owned subsidiary of Mengniu, a substantial shareholder and connected person of the Company. Therefore, Keniule is an associate of Mengniu and a connected person of the Company. Modern Farming Wuhe is an indirect non-wholly owned subsidiary of the Company. Accordingly, the transactions contemplated under the Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest percentage ratio calculated in accordance with the Listing Rules in respect of the transactions contemplated under the Supply Agreement exceeds 0.1% but is less than 5%, the entering into of the Supply Agreement and the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

G. DEFINITIONS

“associate(s)”, “connected person(s)”, “percentage ratio(s)”, “subsidiary(ies)”, “substantial shareholder(s)”	each has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Company which comprises two independent non-executive Directors, namely Mr. LEE Kong Wai Conway and Mr. CHOW Ming Sang, and one non-executive Director, Mr. ZHANG Ping
“Board”	the board of Directors
“Coca-Cola China”	Coca-Cola (China) Investment Co., Ltd.* (可口可樂(中國)投資有限公司), a company established in the PRC with limited liabilities, is the holding company of Keniule and is a wholly owned subsidiary of Coca-Cola South Asia Holdings, Inc.
“Company”	China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117)
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Co., Ltd.* (內蒙古蒙牛乳業(集團)股份有限公司), a company established in the PRC with limited liabilities, a 99.99% owned subsidiary of Mengniu as of the date of this announcement
“Keniule”	Keniule Dairy Products Co., Ltd.* (可牛了乳製品有限公司), a company incorporated in the PRC with limited liability and an associate of Mengniu
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mengniu”	China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司*), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319), and a substantial shareholder of the Company
“Modern Farming”	Modern Farming (Group) Co., Ltd.* (現代牧業(集團)有限公司), a sino-foreign investment enterprise established in the PRC and an indirect non-wholly owned subsidiary of the Company
“Modern Farming Wuhe”	Modern Farming (Wuhe) Co., Ltd.* (現代牧業(五河)有限公司), a company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company
“PRC”	the People’s Republic of China which, for the purposes of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Supply Agreement”	the agreement entered into between Modern Farming Wuhe and Keniule on April 1, 2022 in relation to the supply of fresh raw milk by Modern Farming Wuhe to Keniule
“RMB”	Renminbi, the lawful currency of the PRC

“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Agreement”	the agreement entered into between Modern Farming Wuhe and Keniule on December 28, 2022 in relation to the supply of fresh raw milk by Modern Farming Wuhe to Keniule, as more particularly described in the section headed “B. The Supply Agreement” in this announcement
“Term”	the term of supply of fresh raw milk under the Supply Agreement, i.e. from January 1, 2023 to December 31, 2023
“%”	per cent.

For and on behalf of the Board
China Modern Dairy Holdings Ltd.
LU Minfang
Chairman

* *For identification purpose only*

Hong Kong, December 28, 2022

As of the date of this announcement, the executive Directors are Mr. SUN Yugang and Mr. ZHU Xiaohui, the non-executive Directors are Mr. LU Minfang (Chairman), Mr. ZHANG Ping, Mr. ZHAO Jiejun and Ms. GAN Lu, and the independent non-executive Directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. CHOW Ming Sang.